Minimum Wage Review Committee Report

January 17, 2008

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Honourable Mark Parent
Minister of Nova Scotia Environment and Labour
5151 Terminal Road, 6th Floor
Halifax, Nova Scotia B3J 2T8

Dear Minister Parent:

On October 30, 2003 Government approved legislation to establish a Minimum Wage Review Committee, and we are the members of the Committee: Rick Clarke, President of the Federation of Labour; Tom Patterson, past Executive Director of the Nova Scotia Nurses' Union; Sandra Rodd, Investors Group - Halifax Chamber of Commerce representative; and Steven MacPherson, General Manager of Jack Astor's Restaurant- representing the Canadian Restaurant and Foodservices Association.

The function of the Committee is to conduct an annual review of the minimum wage and submit a report containing the Committee's recommendations. This year, you asked the Committee to look at a possible 3 year recommendation or formula for determining the Minimum Wage, which would allow more predictability in setting budgets and projections for costs and income for the next several years.

The Committee has met regularly and has reviewed the following indicators: economic conditions and the impact of raising wages; Statistics Canada data including the Consumer Price Index, Average Industrial Wage, Median Wage, Low Income Cut Off (LICO), a profile of minimum wage workers; labour trends in NS and other jurisdictions; the changing value of minimum wage; and employers' cost increases including the lower costs associated with Statutory Holidays in Nova Scotia.

After careful consideration of the above, the Committee recommends the following increases to the minimum wage over 3 years:

$8.10 effective	6.5%	May 1, 2008 to March 31, 2009
$8.60 effective	6.2%	April 1, 2009 to March 31, 2010
$9.20 effective	6.9%	April 1, 2010 to September 30, 2010
$9.65 effective	4.8%	October 1, 2010 to March 31, 2011

The minimum wage, at $7.60 per hour, is currently below the most commonly used poverty indicator, Statistics Canada's Low Income Cut Off (LICO). The Low Income Cut Off varies depending on the size of the community. Based on the LICO line for a city the size of Sydney, the minimum wage to maintain a single person working full time at the LICO line was approximately $8.72 per hour in 2006, and will rise to approximately $9.65 in 2010.

The LICO lines are calculated in relation to the expenditure of an average person or family on the essentials of food, clothing and shelter. If a family is required to spend 20% more of its total income on essentials than the average Canadian family, then it falls beneath the LICO line and is considered in low income. LICOs are calculated and reported for individuals and families of different sizes, living in communities of different sizes ranging from rural to large urban areas.

National media reports and anti-poverty groups often refer to a minimum wage of $10 per hour as being required to meet the LICO limits for Canada. For Nova Scotia and for many parts of Canada, that is not accurate.

In Ontario, the Government has set targets to reach a minimum wage that is greater than $10 by 2010. These increases, at 9.3%, 8.5% and 7.8% respectively over the next 3 years, will be more aggressive than our proposals for Nova Scotia.

The Committee has agreed to continue to meet and monitor economic indicators over the next three year period to ensure that modifications are recommended, if conditions change and alteration is considered necessary. The Committee recommends that after 2010, the rate could be adjusted annually using the change in the cost of living (CPI) in Canada as reported by Statistics Canada. The Committee of the day will then be charged with the responsibility to recommend future increases based on whatever economic indicators or comparators that they deem appropriate and relevant. Due to the one month delay in CPI reporting, the Committee recommends using the CPI rate from the end of October to set the minimum wage rate for the following April.

The Committee is interested in determining whether a tip differential wage is warranted, and will be studying this further in 2008.

The Committee wishes to acknowledge and thank the staff of the Department of Environment and Labour for their support, guidance, and facilitation of the work of the Committee. In particular, recognition should be given to Barb Jones-Gordon, William Grant, Holly Cameron, and Rachel Henderson. In addition, the Committee wishes to acknowledge and thank Brian Watson from the Department of Economic Development for his research and analysis of complex data that enabled the Committee to make informed decisions.

It has been a pleasure conducting this review for the Department of Environment and Labour, and we look forward to your response.

Respectfully submitted by,

Rick Clarke	Steven MacPherson
Tom Patterson	Sandra Rodd

1. Background

In Nova Scotia, workers who are not covered by a collective agreement have their rights protected by the province's *Labour Standards Code*. The Code provides direction to employers and employees on a wide range of topics, including the minimum wage.

In 2003-2004, new laws were put in place to establish a Minimum Wage Review Committee. The Committee is composed of equal numbers of employer and employee representatives appointed by the Minister. The Code requires the Committee to conduct an annual review of the minimum wage and prepare a Report to the Minister containing the recommendations of the Committee. Thirty days after the Minister receives the Report it will be made public, and within 60 days of receiving the Report the Minister will publish a response.

Traditionally, the minimum wage rate has been set several months in advance, to ensure that businesses and employees have time to plan and budget for the proposed increases. The rate may be set for one year, or more or less, which allows the Minimum Wage Review Committee to be more responsive to emerging issues.

The Committee's first report, issued in March of 2005, recommended an increase of $0.30 from $6.50 to $6.80 effective October 1, 2005, and a second increase from $6.80 to $7.15 effective April 1, 2006. The Committee's second report of December 2006 recommended an increase from $7.15 to $7.60 effective April 1, 2007. The recommendation was implemented by the Government following a general consultation with stakeholders. An additional month was added to allow stakeholders time to adjust to the last increase and it was implemented May 1, 2007.

Committee report	Increase recommended	Monetary Increase	% increase	Effective Date
March 2005	$6.50 to $6.80	$0.30	4.6%	Oct 1, 2005
	$6.80 to $7.15	$0.35	5.2%	April 1, 2006
December 2006	$7.15 to $7.60	$0.45	6.3%	May 1, 2007

Committee's Recommendation:

The Committee would like to see the LICO target met by the end of 2010. This would be in line with several other Provinces. Small employers need more time and assistance to reach the goal, especially those in the restaurant and food services, tourism and retail sectors. As a result, the Committee's recommendation is back loaded and sets out a realistic timeline and pace of change. This is important, especially when tax and budget measures to assist these employers are not in place.

The Committee's recommendation complies with the Minister's request to develop a formula that would outline the future increases over a 3 year period. This proposal notes that increased wages tend to allow for increased expansion and spending in the economy, which is an important factor in setting the minimum wage.

If our recommendations are accepted, by the end of 2010, the minimum wage at $9.65 would be very close to the LICO line for a single person working full time in a community the size of Sydney, and could be adjusted accordingly. The rate for inexperienced workers would increase proportionately and would be 50 cents less than the minimum wage rate.

The Committee has focused on several key issues in making its recommendations:

1) Whether there should be a separate minimum wage set for employees in the hospitality industry who serve liquor, and earn tips in addition to wages. There will be a report completed in 2008 by Professors Larry and Judy Haiven of Saint Mary's University that may assist the Committee in reviewing this issue. This independent study is using focus groups of workers in the restaurant and food services industry, as well as an on-line survey, to review issues of wages and job security in the food service industry. This study may provide information that could be extrapolated to the issue of tip differentials, and the Committee will continue to review this issue in 2008.
2) Certain sectors of the Nova Scotia economy had had lower growth in the past few years, notably in the tourism and accommodation industry. These industries along with the retail and service sectors are large employers of those employed at the minimum wage rate. Current dollar tourism expenditures in the 2nd quarter (seasonally adjusted) increased 1.7% over the 1st quarter 2007 to $17.5 billion. Tourism spending by domestic travelers increased 1.5% to $13.4 billion, while spending by international travelers increased 2.3% to $4.1 billion. So while these are not huge increases, they are at least more positive than the previous year. Tourism visitations to Nova Scotia are marginally higher this year and room nights sold has stabilized. (Source: Tourism Insights 2007)
3) Demographic change is having a significant impact on the Nova Scotia labour force. The results are an aging work force, increased demand for workers in Nova Scotia, particularly in the skilled trades; and a trend toward out-migration to the western provinces in response to severe labour shortages there. The Committee heard from the NS Department of Economic Development that the

labour market is shrinking, and that the demand for workers is increasing. This trend will continue into the future and by 2016, it is forecast, there will be a province-wide shortage of labour in many occupations. The labour shortage puts upward pressure on wages. In response a number of minimum wage employers have been offering higher wages in order to recruit and retain employees.

4) Several recent studies have been completed for the Federal Labour Code review, notably those completed by Professor Morley Gunderson, Chair of the University of Toronto Economics Department. He estimates that for every 10% increase in the minimum wage, there is a decrease, perhaps as high as 3% in the rate of employment, mostly impacting youth employment.[1] These calculations remain controversial and some economists disagree. The NS Department of Economic Development has monitored employment over the past 10 minimum wage increases years, and has not detected any decreases in youth employment that can be persuasively attributed to increases in the minimum wage. In a paper prepared for the Ontario Government in February 2007, Gunderson concludes ". . . *moderate* increases in minimum wages are not likely to have disastrous consequences, especially if introduced in expansionary periods. As long as the floor is not raised too much, the roof is not likely to fall in." (Minimum Wages: Issues and Options for Ontario, p. iv)

5) Certain initiatives both at the Federal and the Provincial level will have an impact in stimulating the economy, and lessen the impact of the proposed minimum wage increases. The Federal Government has lowered GST by 1% in 2006, and is announced a further reduction of 1% in January of 2008. Tax measures proposed in recent Federal and Provincial budgets will lower income taxes for corporations and individuals. In addition, direct Federal transfers to individuals have increased.

6) The Committee reviewed the issue of statutory holidays, which vary widely across the country. NS employers benefit by having the lowest number of paid statutory holidays in Canada – approximately three fewer than most provinces. According to the study completed for the Committee by Halifax Global Consulting, the corresponding cost to employees and savings to employers is over $ 304.00 per employee for the 3 fewer holidays.

7) Other jurisdictions, such as Ireland, have used various economic strategies to increase the minimum wage and enhance employment growth. The committee agrees with the multifaceted approached taken in Ireland and is supportive of the steps taken by Government to initiate a Poverty Reduction Strategy, which will be broadly inclusive of stakeholders.

[1] http://www.fin.gov.on.ca/english/publications/2007/Gunderson/index.html#_Toc160894335

2. Principles to Consider

The major principles to consider when setting the minimum wage are:

- maintaining fairness for the lowest paid members of our workforce;
- recognizing minimum wage and cost of living trends;
- preparing for labour shortages due to demographic trends; and
- balancing the issues relative to economic competitiveness for industry.

3. Purpose of Minimum Wage and Its Impact on Poverty

The purpose of minimum wage legislation is to guarantee a minimum standard of pay. Traditionally, minimum wage legislation forms part of the response to the problem of low pay, and was developed to protect the most vulnerable workers.

In 2006, approximately 46,100 employees received wages near the minimum wage in Nova Scotia. This figure includes those working above the minimum wage ($7.60 to $7.99). This represents about 11.9% of employees paid by the hour in Nova Scotia, which in 2006 included 388,600 full and part time workers. In 2005, those earning less than $8.00 per hour totaled 13.7% of the workforce.

As important as a minimum wage increase is for those who are paid at the lowest level, an increase is equally important to many more working Nova Scotians because the minimum wage acts as a benchmark wage. Employers, notably those who pay lower wages, tend to measure their pay scales against the minimum wage. As minimum wages rise so do other wage rates. Thus, in addition to 46,100 earners under $8.00 per hour, an additional 50,000 employees work for wages between $8 and $9.99 per hour. In total, 25% of employees who earn between minimum wage ($7.60 per hour) and $9.99 per hour may be impacted by a minimum wage increase. [2] (However, as discussed below, economic and demographic pressures are already creating upward pressure on entry level wages in Nova Scotia.)

Committee members agree that minimum wage alone cannot fix the problems of the working poor. The cost of necessities and utilities, tax on these items, an increase in precarious employment (casual, part-time, self-employment), lack of well paid jobs, and the high cost of post-secondary education contribute to the concerns of the working poor. In addition to minimum wage, other strategies can help alleviate poverty: increases in the basic personal income tax exemption to put more money in the pockets

[2] Source: Statistics Canada Cat. No. 71F0004XCB, Labour Force Historical Review, Table CD3T06an)

of low income earners; education subsidies; affordable transportation, housing and child care.

On October 30, 2007, the Federal Government announced a reduction in the GST rate by a further 1% effective January 1, 2008. The Federal basic personal exemption was increased to $9,600 effective Jan 1, 2007. This will increase to $10,100 in 2009. The basic personal exemption is the amount of money a person can earn before paying income tax. The lowest personal income tax rate was 15.5% in 2006, and will fall to 15%.

The Federal Government also announced that corporate taxes would be cut — by $14.1 billion over the next five years. The corporate income tax rate will drop by an additional percentage point to 19.5 per cent in 2008, falling in steps to 15 per cent by 2012. By that time, Canada will have the lowest corporate tax rate among the major industrialized economies. The scheduled cut in the federal government's small business income tax rate to 11 per cent will be brought forward to Jan. 1, 2008, from 2009.

The Committee recognizes these tools will be somewhat more effective to combat poverty among low income earners, and that reduced taxes, especially the small business tax rate will help businesses pay for increases in the minimum wage.

It is widely accepted that the minimum wage alone cannot effectively address the problem of poverty. However, it is one tool, the only one within the Committee's mandate. As the Committee noted in its 2006 report, a committed and multi-focused approach is required to effectively combat poverty, similar to the approach taken by government with respect to deficit and debt reduction. The Committee was happy to learn that the province is developing a Poverty Reduction Strategy.

4. Recognizing minimum wage increases across the country

The minimum wage is a significant issue in Nova Scotia because many workers are employed at minimum wage or at rates very close to minimum wage. Many are in the part time work category, and are predominantly women. When recommending the minimum wage rate, the Committee considered, among other things, minimum wage rates across the country and cost of living trends within Nova Scotia.

The chart below shows the current minimum wage and projected increases across Canada, and the average rate of minimum wage projected for 2008 and beyond. The Provinces of Saskatchewan and Ontario have moved to a three year projection of the minimum wage rates, and Alberta, Saskatchewan and North West Territories will adjust their minimum wage to a statistical indicator each year.

Jurisdiction	Current Rate	2008	2009	2010
Alta	$ 8.00 Sept 1, 2007	Future changes will occur on April 1, beginning in 2008, and will be indexed to changes in the Average Weekly Wage for Alberta.		
BC	$8.00			
Man	$8.00	$8.50 April 1		
NB	$7.25 July 1, 2007	$7.75 April 1		
NL	$7.50 Oct 1, 2007	$8.00 April 1		
NWT	$8.25			
NS	$7.60 May 1, 2007			
Nunavut	$8.50 May 1, 2003			
Ont	$8.00	$8.75 (Mar 31)	$9.50	$10.25
PEI	$7.50 April 1, 2007			
Que	$8.00 May 1, 2007	$8.50 (May 1)		
Sask	$7.95 May 1, 2007	$8.25 (Jan1) $8.60 (May 1)	$9.25 (May1)	Bring Min Wage to LICO, beginning in May 2010 indexed to CPI.
Yukon	$8.37 May 1, 2007	Indexed to CPI annually		
Average	**$7.91**	**$8.35 (to date)**		

The following chart illustrates changes to the minimum wage in the Atlantic region:

Jurisdiction	2004	2005	2006	2007	2008
New Brunswick	$6.20	$6.30	$6.70	$7.25	$7.75
Newfoundland	$6.00	$6.25	$6.50 $6.75	$7.50	$8.00
Nova Scotia	$6.50	$6.80	$7.15	$7.60	
Prince Edward Island	$6.50	$6.80	$7.15	$7.50	
Average				$7.46	

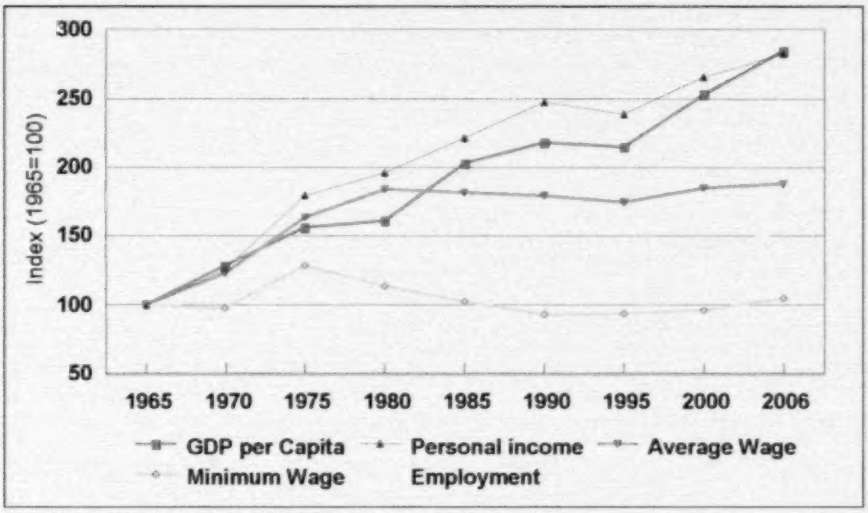
Newfoundland will raise the minimum wage from $7.50 per hour to $8.00 effective April 1, 2008, and NB will move to $7.75. Prince Edward Island is contemplating an increase. Nova Scotia's minimum wage has kept pace with Prince Edward Island and has been slightly ahead of New Brunswick and Newfoundland. The current national average minimum wage is $7.91 per hour, moving to at least a projected $8.35 next year.

GDP and Personal Income Growth

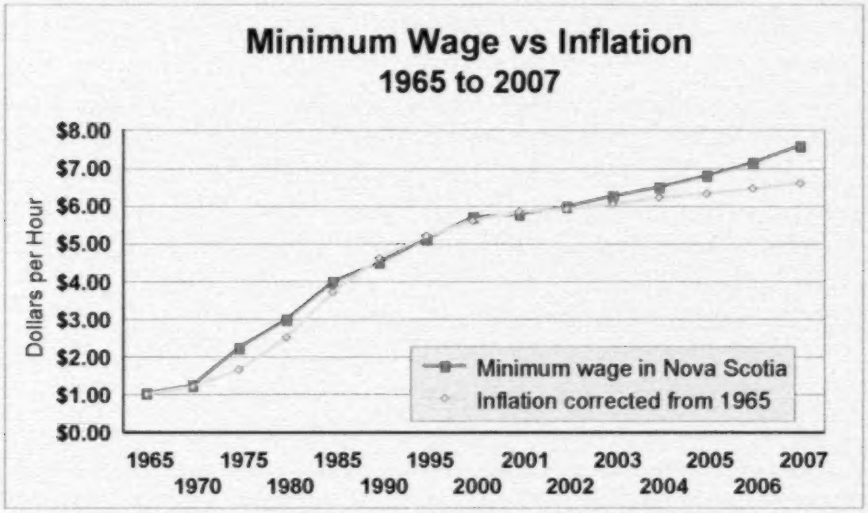
The graphs below indicate that since the minimum wage was introduced in Nova Scotia in the 1960's, the expansion of the economy measured by Gross Domestic product per person (the red line below) has increasingly been shared by more workers (represented by the yellow line). Overall wages increased at a slower rate than the economy grew (the pink line) and minimum wages grew at an even slower rate (the green line). The wealth created in the economy reached individuals increasingly in the form of transfers from the federal and provincial government (the blue line).

The graphs show that although the overall prosperity of Nova Scotians has increased very significantly since the 1960s, the minimum wage has remained almost completely static. It is only in the past 5 years that minimum wage has begun to exceed the inflation rate. In fact, from 1965 to 2006, the minimum wage worker's real income when adjusted for inflation increased by 5%. During the same period, the wage for the average worker adjusted for inflation increased by 88%. For this reason alone, it is fair and reasonable to increase the minimum wage substantially and quickly to make up some of this lost ground.

Index of GDP and personal income per person compared to employment, minimum wage and average wage 1965 to 2006



Source: Statistics Canada, Bank of Canada, Service Canada
Calculations by Nova Scotia Department of Economic Development



Source: Statistics Canada, Bank of Canada, Service Canada. Calculations by the Nova Scotia Dept of Economic Development, August, 23, 2007.

Minimum wage in a changing economy- Outlook for 2016

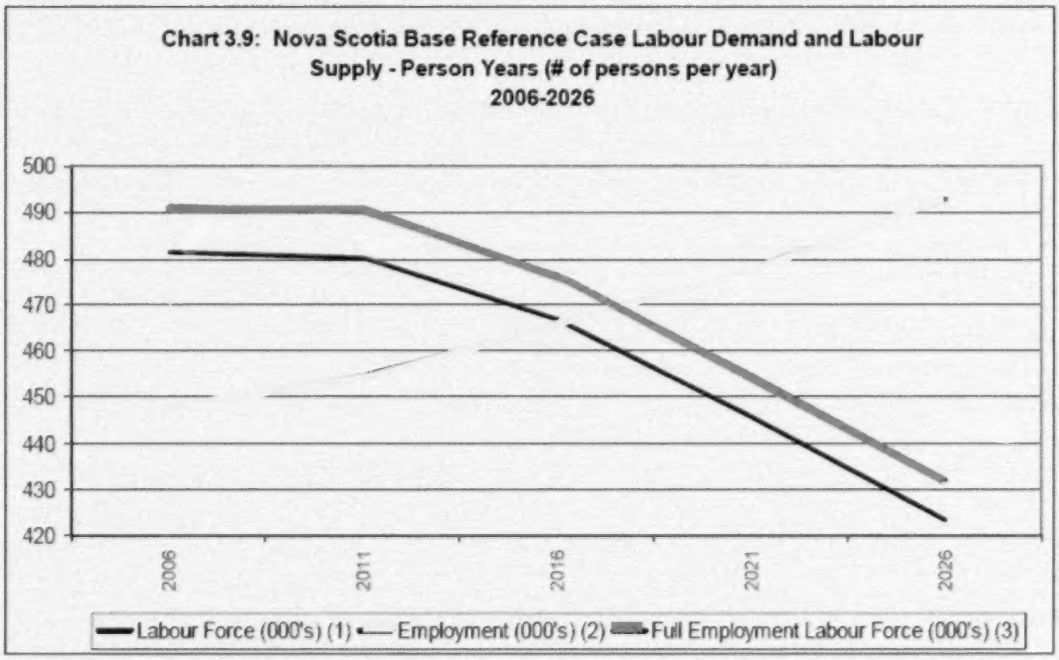
Driving force	Impact on minimum wage workers	Impact on wages
Aging & declining workforce	Lower supply	Up
Pensions replace wages	Increased demand for services	Up
Low education retire	Lower supply	Up
Female workers stabilize	Lower supply	Up
Productivity improvements	Machines replace workers	Up
Need for increased skills	Better jobs available	Up

Source: Nova Scotia Department of Economic Development, August 23, 2007.

The above chart attempts to look forward at the changing demographics and indicators that will continue to impact on wages as 2016 approaches. While some may suggest that there is plenty of time to prepare for this shortage, the economic outlooks from key financial institutions, and the increased numbers of retiring workers indicate a strong need to prepare for the future.

The graph below on Labour Supply and Demand, attempts to look forward at the changing demographics and indicators that will continue to impact on wages as 2016 approaches. It looks at our changing workforce and the coming labour shortage. While some may suggest that there is plenty of time to prepare for this shortage, the robust economic outlooks from key financial institutions noted below, and the increased numbers of retiring workers indicate a strong need to prepare for the future.
As the labour force stops growing, wealth in the future will be shared by fewer employees, putting upward pressure on wages.

Labour Supply and Demand



Source: Knowledge Economy Report Card Summit, November 17, 2006 presentation by Dr. James McNiven, Professor, Dalhousie University.

The Royal Bank predicts in its Provincial Outlook, (January 2008) that NS will have a positive GDP growth throughout the 2008 to 2009 period.

> With two major capital projects set to start construction in the next two years, Nova Scotia's economy will post around three per cent growth on average in 2008 and 2009 respectively, according to the latest provincial economic forecast by RBC. "Both The Deep Panuke and Keltic projects will complement a domestic economy that is holding up well, despite housing markets showing signs of softening," said Craig Wright, senior vice-president and chief economist, RBC. According to the report, The Deep Panuke natural gas project ($700 million) will continue construction until 2011 when it will shift into production and a 13-year lifecycle. The Keltic petrochemical plant ($4.5 billion), a project that will create about 3,000 construction jobs and about 500 full-time jobs, will start construction in the next year and has a planned start-up for 2011. By contrast, construction activity is down eight per cent and the increase in resale home prices is modest. Due to stressed affordability, a further cool down in housing starts and resales is expected. Therefore, an upturn in nonresidential construction activity provides

> opportunities for firms and trades to diversify away from softening housing markets.[3]

The Bank of Nova Scotia appears to agree with this outlook, in its Provincial Trends Report released July 19, 2007.

> Nova Scotia's economy is expected to post average growth of 2¼% in 2007 and 2008. The forecast could move higher if one of several proposed major construction projects proceeds. Some of the major items on the list are an offshore gas field, a deep-water container terminal, and a petrochemical and LNG plant.

6. Cost of Living & the Consumer Price Index

Another consideration in setting the minimum wage rate is the cost of living in Nova Scotia. Cost of living analysis requires looking at the following two measures: the Consumer Price Index (CPI), and Low Income Cut Off (LICO).

The CPI is a measure of the level of inflation, and inflation is the general increase in prices and the fall in the purchasing power of money. It measures how much the price of a basket of consumer goods has changed over a given period of time. The major components of the basket are: food, shelter, household operations and furnishings, clothing and footwear, and transportation. One method of determining minimum wage, which is only used in the Yukon, is to index it to CPI. Indexing is a system of economic control in which certain variables (such as wages and interest) are tied to the cost of living index so that both rise and fall at the same rate. When this happens, the detrimental effect of inflation is, in theory, reduced.

[3] Royal Bank Provincial Outlook, January 2008.

In Nova Scotia, the annual percentage change in the CPI between 2000 and 2007 is as follows:

CPI for NS By Year	% Change
2000	3.5%
2001	1.8%
2002	3%
2003	3.4%
2004	1.8%
2005	2.8 %
2006	2.0%
2007 (to Sept)	2.1%

Nova Scotia Department of Finance Website.

7. Low Income Cut Off Levels

A person in low income is someone whose family income falls below Statistics Canada's low income cut-offs (LICOs).

The LICO lines are calculated in relation to the expenditure of an average family on the essentials of food, clothing and shelter. If a family spends 20 percentage points more of its total income on these essentials than the average family, then it falls beneath the LICO line. LICOs are calculated and reported for families of different sizes, living in communities of different sizes ranging from rural to large urban areas. LICO lines are set nationally and do not vary province by province.

Although LICO lines are not "poverty lines" *per se*, they are the most frequently used metrics when discussing the measurement of poverty and low income in Canada

2006 low income cut-offs for one person (before tax)

Size of Community	LICO line	Wage to meet LICO
Rural	$14,596	$7.02
Less than 30,000	$16,605	$7.98
30,000 - 99,999	$18,147	$8.72
100,000 - 499,999	$18,260	$8.78
500,000 and over – not applicable in Nova Scotia	$21,202	$10.19

Notes
1. The LICO lines do not vary based on regional variations in cost of living.
2. The wage figure is based on an assumption of 52 paid weeks at 40 hours per week.

- **Ratio of minimum wage to median wage**

One metric that is used to measure the minimum wage is its relationship to the average wage or median wage. This allows for some comparison between differing economies. According to Nova Scotia Department of Economic Development staff, the median wage is the more stable figure.

In Nova Scotia the median wage in October 2007 was $15.50 per hour (Stats Can). With the current minimum wage of $7.60, the ratio is 49%.

Canadian figures for the ratio range from a high of 54% in PEI to a low of 40% in Alberta (where the average wage is the highest in Canada). However, a very low percentage of Albertan employees work at minimum wage; 2% as opposed to 6.9% in Nova Scotia.

According to Morley Gunderson, Canadian minimum wages are at the low end of the international spectrum for developed economies as a ratio to the average wage. In the US, the minimum wage was $5.85 an hour in July 2007. In Ireland, it was 8.65 Euros an hour, July 2007 ($12.78 Canadian) and in England, it was 5.52 pounds ($11.36 Canadian).

The chart below also provides information on a "market minimum wage", established by taking the median wage paid to entry level workers in minimum wage sectors. It Nova Scotia in June 2007, shortly after the last minimum wage increase, the market minimum was $7.60, but this had increased to $8.00 by October 2007.

Province	Minimum Wage as of July 1/07	Market* Minimum Wage Oct. 07	Median Wage October 2007	Percentage of minimum wage/to median wage and Market wage/to median wage 2007
Nova Scotia	$7.60	$8.00	$15.50	49.0% (51.6%)
Alberta	$8.00	$10.25	$20.00	40.0% (51.3%)
BC	$8.00	$9.50	$19.00	42.1% (50.0%)
Manitoba	$8.00	$8.60	$16.40	48.8% (52.4%)
New Brunswick	$7.25	$7.50	$15.00	48.3% (50.0%)
Newfoundland	$7.50	$7.50	$15.50	48.4% (48.4%)
Ontario	$8.00	$8.50	$19.00	42.1% (44.7%)
Quebec	$8.00	$8.50	$17.30	46.2% (49.1%)
PEI	$7.50	$7.90	$13.75	54.5% (57.5%)
Saskatchewan	$7.95	$8.50	$18.00	44.2% (47.2%)

Source: Statistics Canada, Labour Force Survey, Calculations by Nova Scotia Economic Development.

* Market minimum wage is calculated by looking at the median wage paid to youth aged 15 to24 in sales and service occupations

8. Balancing issues relative to economic competitiveness

The purpose of exploring economic competitiveness is to determine, from a Labour Standards perspective, the cost of doing business in Nova Scotia. This means statutory payroll costs which include: vacation pay, statutory holidays, Employment Insurance, Canada Pension Plan, Workers' Compensation, and other miscellaneous categories, such as payroll taxes.

All jurisdictions, except Quebec, pay the same rates for Canada Pension Plan and Employment Insurance. Canada Pension Plan represents 4.95% of payroll and Employment Insurance is 2.77%. Vacation pay is 4%. Workers' Compensation premiums are higher than the national average, and are at $2.65 per $100 of assessment. As noted above, Nova Scotia has the lowest number of statutory holidays in Canada. The *Labour Standards Code* presently provides 5 paid holidays. The national average is 7.85 paid holidays. Estimates of the cost of a public holiday range from 0.4% to 0.5% of payroll. Thus, Nova Scotian employees receive significantly less benefit from statutory holidays than most Canadian employees.

The Canadian Restaurant and Food Services Association website estimates that payroll taxes are about 40% of all taxes paid by food service operators. Canada Business (Gov of Canada website) estimates that staff benefits add between 10-30% above wages/salaries depending on benefits offered.

The Committee recognizes that many small businesses pay minimum wage, or close to the minimum, and that an aggressive increase in the minimum wage may not be readily absorbed.

9. Tip Differentials

In two provinces, Ontario and Quebec, and in 37 American states, there has been a tip differential system for many years. In all other jurisdictions, an employer must pay employees the applicable minimum wage rate without taking into account the tips that are received. The committee has approached this only from the perspective of servers who are serving liquor to the public.

The Canadian Restaurant and Foodservices Association has suggested that tip differentials be put in place as a lower minimum wage for servers in liquor licensed establishments. The Ontario method is preferred which only applies to bartenders and servers who regularly serve alcohol directly to customers in licensed establishments. Labour is a significant cost factor for the food service industry, accounting for one-third of all sales. Profit margins have decreased to 2.9% in this industry in 2005. Full service restaurants have decreased from 1,744 in 1999 to 1,551 in 2006. The recent 45 cent increase in minimum wage is estimated to have cost the industry $14M in 2007.

A tip differential helps to moderate the negative impacts of future minimum wage increases, and allows employers to pay non-liquor servers more.

Wages for NS Food and Beverage Servers (Stats Can 2005)Average Wages with Reported Tips

Labour Force Survey (chefs, cooks, food and beverage service) N.S.

Average Hourly Earnings	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Total (Both)	8.91	8.53	8.93	9.38	9.97	9.68
Full-time (30 hrs or more)	9.38	8.98	9.25	9.64	10.68	10.19
Part-time (less than 30 hrs)	7.65	7.54	8.23	8.87	8.64	8.74

Source: StatsCan Table 282-0070

The wages appear to be well above the minimum wage at the current time. If a tip differential system came into effect, employees who work in the food and beverage service industry, who served liquor, would have a separate minimum wage, and tips

would account for the increase in minimum wage. Other changes would be needed to legislation to define tips and to set out a process for ensuring fairness in their consideration in wages.

The Committee recognizes that this group of workers is in a different position than other workers who do not have the ability to work in areas that generally receive some form of extra income in the form of tips.

Whether there should be a separate minimum wage set for employees in the hospitality industry who serve liquor, and earn tips in addition to wages is under future consideration. As noted, there will be a report completed in 2008 by Professors Larry and Judy Haiven of Saint Mary's University that may assist the Committee in reviewing this issue, which may in turn promote the need for further changes in 2009. This independent study is using focus groups of workers ion the restaurant and food services industry. There are questions the Committee has that may be extrapolated from this study for use in the minimum wage review and possible tip differential. The Committee plans to address this issue further in 2008.

10. Developing a Multi-Year Formula

Several provinces have attempted to set a formula, or use an objective, externally calculated statistical measure to adjust minimum wage. This ensures that the minimum wage does not lose ground to inflation, once the wage has been set at a satisfactory level, for example, meeting low income cut off levels or some other standard indicator. The graph below shows the results of the following approaches to a formula.

Ratio to median wage
The Committee considered the use of the median wage as a relatively stable measure, calculated by StatsCan on a regular basis, which could be used by both employers and employees as a predictable measure to increase minimum wages. However, the Committee could not identify any basis for picking a particular ratio.

Cost of Living Increase
The minimum wage has not kept pace with increases in wages and incomes over the long term. Indexing the minimum wage to the cost of living would not remedy this.

Percentage of Gross Domestic Product
Indexing the minimum wage to the GDP would produce increases linked to the province's economic performance. As with the median wage ratio, there is no objective basis for selecting any particular ratio.

Fixed Percentage Increase

The minimum wage could be increased by a fixed amount annually. If the amount of the increase was above the inflation rate, the minimum wage would continue to increase in real terms indefinitely.

Low Income Cutoffs (LICO)

The LICO for a single person is widely discussed as a basis for setting the minimum wage. In the 2006 Report on the Review of the Canada Labour Code, Fairness at Work, Harry Arthurs recommended that the federal government reestablish a federal minimum wage (currently set at provincial levels) for enterprises under federal jurisdiction and that the minimum wage be indexed to the LICO.

Saskatchewan has recently announced that it will bring the minimum wage to the urban LICO by 2010, and then index it to CPI.

The Nova Scotia Coalition for a Poverty Reduction Strategy, in its October 2007 Framework, recommended that the minimum wage be indexed to the LICO for a single person.

As noted above, LICO lines are set based on community size. In Nova Scotia there are no communities with population exceeding 500,000, so the highest LICO does not apply. Nova Scotia's current minimum wage meets the LICO for rural residents. However, anti-poverty groups have noted that the rural LICO does not adequately take into account the increased cost of transportation for rural residents. The Saskatchewan Minimum Wage Board also noted this in its recent review and recommended that the LICO for a city the size of Regina be used in setting minimum wage (Saskatchewan Minimum Wage Board, July 2007, p. 22). The government of Saskatchewan accepted this recommendation.

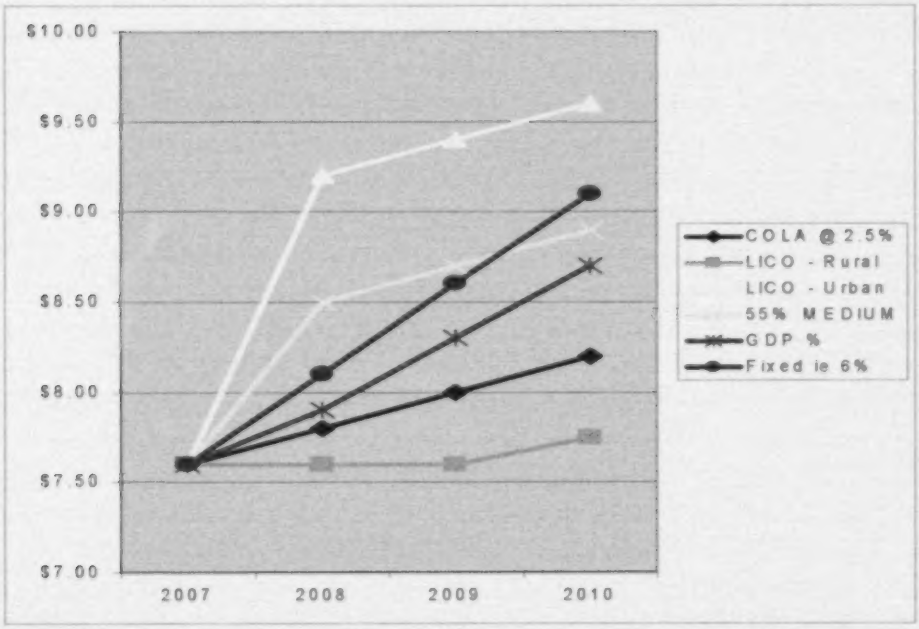
In Nova Scotia, if the LICO for a community from 30,000 - 99,999 was used, the minimum wage would have been $8.72 in 2006.

Summary

After reviewing the above alternatives, it is the Committee's opinion that the LICO forms the most rational basis for establishing a minimum wage formula. It is widely accepted as a measure of low income. In our recommendations we suggest that the minimum wage be gradually increased until it meets the LICO for a single person in a community from 30,000 - 99,999, based on a 40 hour work week for 52 weeks per year. The Committee estimates that the applicable LICO will be approximately $20,072 in 2010, which would result in a minimum wage of $9.65, and $20,500 in 2011, which would result in a minimum wage of $9.90.

Once the LICO threshold is reached, we recommend that the minimum wage be indexed to CPI. The Committee will review the indexing formula prior to and once the LICO is met in order to ensure that the level of minimum wage correlates to any changes in the economic and social circumstances of NS.

Options for Increasing Minimum Wage



Note : this shows the effect of moving to the formula in 2008. We recommend a gradual approach to bring the minimum wage to the LICO by 2010.

Recommendations:

1. **The recommended increase is $8.10 starting May 1, 2008; $8.60 starting April 1, 2009; $9.20 and $9.65 starting April 1, 2010 and October 1, 2010 respectively.**

2. **The recommended minimum wage rate for inexperienced workers is to increase to $7.60 effective May 1, 2008, and will then increase to a rate that is $0.50 less that the regular minimum wage on the dates specified above.**

3. **The Committee recommends that the Province move to the urban LICO limits over 3 years.**

4. **The Committee recommends that this formula be reviewed yearly to ensure it remains relevant to changing conditions.**

5. **The Committee will review the Haiven study in 2008 and other options to determine if there are recommendations that would suggest a tip differential is warranted.**